Pason Growth

To Our Shareholders:

Clearly, our year-over-year results were excellent. By all financial measures, Pason significantly outperformed 2002 while achieving record results for the seventh time in our eight-year history as a public company. **This Annual Report is about the 2003 operating year, the numbers and our prospects for continued growth. A summary of our financials includes:**

- **Increased revenue 66% to $91.8 million.**
- **Grew net earnings 156% to $24.6 million or $1.35 per share.**
- **Improved operating cash flow 118% to $40.5 million or $2.23 per share.**
- **Increased shareholders' equity 27%, which represents a return on equity of 33%.**
- **Paid out $0.17 per share in dividends, the first in Pason's history.**

Although most oilfield service companies have reported strong gains for 2003, we are more pleased with our progress over 2001 – the industry's previous record year. While few service companies were able to exceed their 2001 results, Pason's 2003 revenue was 46% or $28.8 million ahead of 2001 and net earnings exceeded that year by 59% or $9.2 million.

How We Grew

Over the past decade, Pason has carefully cultivated a reputation for excelling in our industrial designs, use of technology and provision of field service necessary to support the data acquisition, rig control and data management products we provide to the oil and gas industry. This solid reputation has given customers the confidence to award a significant portion of their business to us and to quickly adopt our new products, often simply because they are "Pason" products.

We continue to measure our business with one key metric – revenue per industry drilling day. We grow this metric by increasing our share of active rigs that carry Pason products, by adding more products to each rig and by increasing product prices. During 2003 (and for the first time in seven years), we initiated an across-the-board price increase of 10% to 14%

on most of our products in order to recover the extra costs associated with the more complex requirements that our customers now have for them. Pason's newer offerings – Total Gas Systems (TGAS), Peloton WellView® operator reports, satellite communications and AutoDrillers – contributed $8.2 million to our total revenue for 2003. The relative importance of these new products in our revenue mix is still dwarfed, however, by our older products – Electronic Drilling Recorders (EDRs) and Pit Volume Totalizers (PVTs) – which continue to demonstrate surprising growth. Historically, our revenue numbers for new products have approximated an exponential rather than linear curve, and as a consequence, we are expecting continued strong growth as our newer products move further along this curve.

Many companies that have experienced early success stumble because they cannot maintain operational efficiency as their businesses grow. We are acutely aware of this risk and during 2003, completed a number of initiatives to improve our efficiency. More specifically, we completed a three-year project to rewrite our entire EDR software code as well as change the server operating system to Linux. As a result, we can now make fixes, add features and monitor the operation of our EDRs at a much faster rate. We substantially upgraded our Help Desk with more people and better tools, allowing us to handle more rigs with timely advice. We launched a Company-wide knowledge base available to all field service technicians and office support personnel. This knowledge base should prove to be a more effective way to store and disseminate information on installation procedures, operational tips and solutions as well as status for known bugs, and will become even more essential as we continue to increase the number of Pason products. Finally, we consolidated our U.S. operations management from separate northern and southern units into one group based in Denver. This has allowed us to place more focus on business development efforts out of our Houston office, where we also added additional marketing resources.

Where We Grow From Here

We continue to be very optimistic about expected activity levels for 2004. While some industry analysts late last year doubted that the 2003 pace would repeat, first quarter activity in both Canada and the United States is well ahead of the prior year. There has also been a change in opinion on commodity prices; that is, the industry is now beginning to believe that the current historically high crude oil and natural gas prices are sustainable. With this change in thinking, our oil and gas exploration and development customers are likely to be much more aggressive in setting drilling budgets.

I would like to thank all Pason stakeholders – employees, customers, suppliers and investors – for their support during the past year and I look forward to reporting the results of our continuing efforts for meaningful growth as the new fiscal year progresses.

On behalf of the Board of Directors,

JD Hill

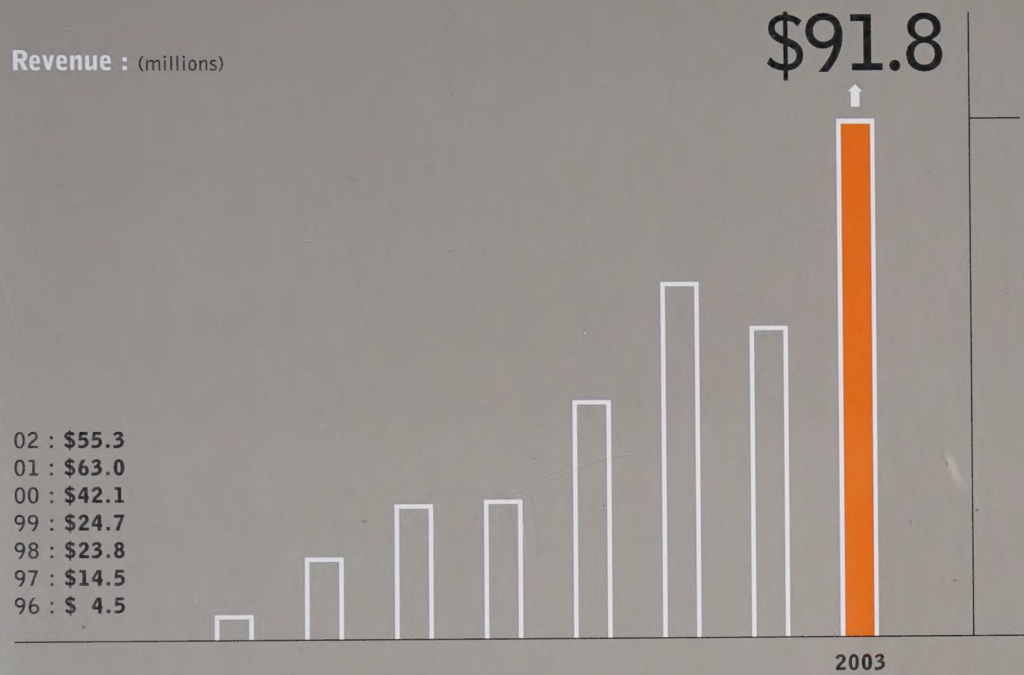
Jim Hill : President & Chief Executive Officer
March 19, 2004

Market Capitalization : (millions)

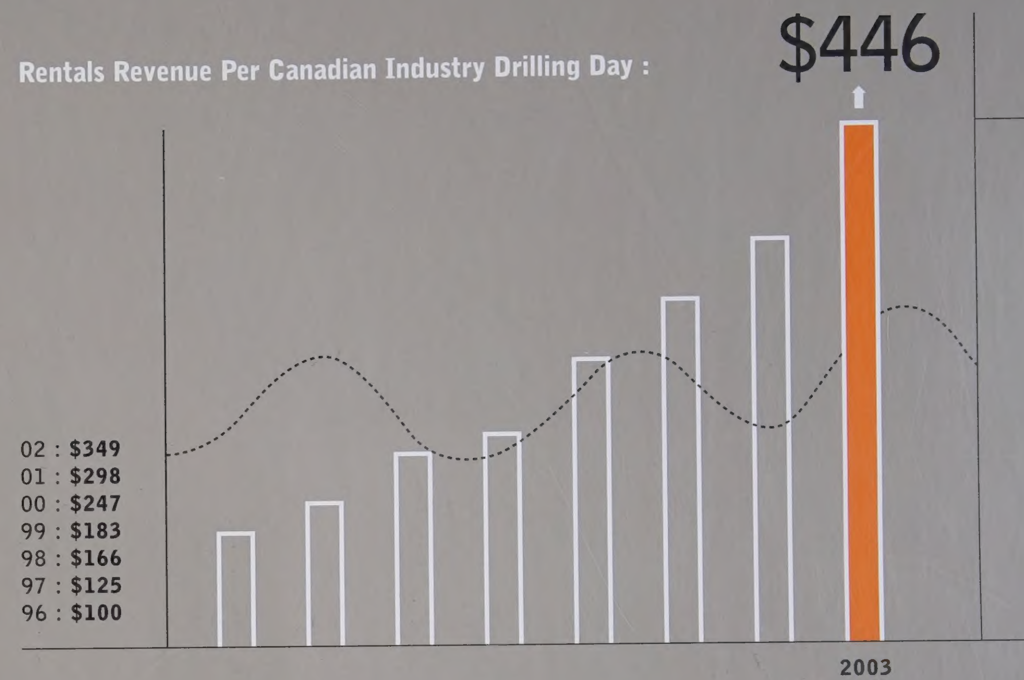
02 : **$214**
01 : **$159**
00 : **$117**
99 : **$102**
98 : **$ 47**
97 : **$103**
96 : **$ 29**

During 2003, our market capitalization rose 117% to close the year at $465 million. Given this capitalization level, more Investment Funds are now permitted to accumulate Pason stock, and as a result, we have seen a significant increase in interest in our Company and our business strategy. Going forward with our current customer base, operational efficiency and results-oriented R&D department, we feel strongly that these investors will not be disappointed.

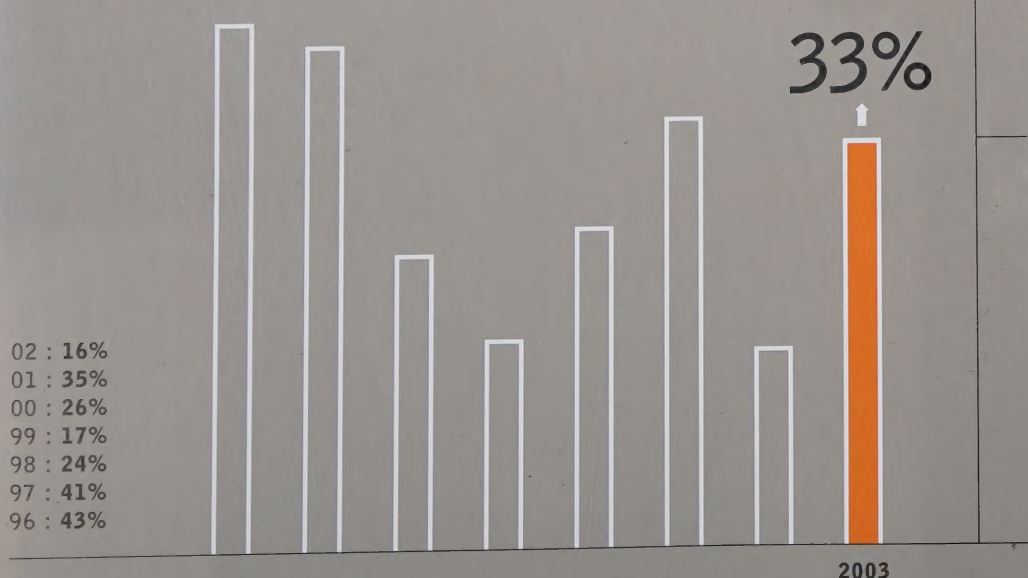
Revenue : (millions)



Rentals Revenue Per Canadian Industry Drilling Day :



Return On Equity :



Typically, over the course of several drilling cycles there is little change in the number of drilling days recorded in either Canada or the United States. As a consequence, real growth can only come from adding more products and value to each industry drilling day. This chart is testimony to Pason's success with that strategy.

This is Pason

Pason Systems Inc. is the world's largest provider of rental oilfield instrumentation systems that are designed and manufactured for use on land-based drilling rigs. Pason offers a tightly integrated package of complex services including data acquisition, wellsite reporting software, remote communications and Internet information management tools.

The Company's strategic focus on unique proprietary solutions and providing the industry best in customer care gives it a competitive advantage in meeting the challenges of the drilling site and bridging the physical separation between the remote rig site and the office. Leveraging these services on its dominant Canadian wellsite presence, a solid position in the United States, and growing operations in Mexico and Argentina, has created strong revenue for Pason as evidenced by an impressive return on shareholders' equity, which has averaged 29% over the last eight years.

Pason is a Canadian corporation with its head office located in Calgary, and United States offices in Denver and Houston. Common shares of Pason Systems Inc. are listed for trading on the Toronto Stock Exchange under the ticker symbol PSI.

Performance Data

ANNUAL RESULTS

Years Ended December 31,	2003	2002	Change
	$	$	%
Revenue	**91,801,000**	55,311,000	66
Net earnings	**24,596,000**	9,606,000	156
Per share – basic	**1.35**	0.54	150
Per share – diluted	**1.31**	0.53	147
Cash flow from operations	**40,463,000**	18,534,000	118
Per share – basic	**2.23**	1.04	114
Per share – diluted	**2.15**	1.01	113
Capital expenditures	**34,041,000**	14,069,000	142
Working capital	**9,235,000**	4,295,000	115
Total assets	**112,289,000**	90,191,000	25
Shareholders' equity	**83,902,000**	65,878,000	27
Return on shareholders' equity	**33%**	16%	106
Market capitalization at year-end	**465,000,000**	214,000,000	117
Weighted average shares outstanding	**18,175,043**	17,747,752	2

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. Return on shareholders' equity is calculated as net earnings over the simple average of the beginning and ending shareholders' equity. Both definitions are not recognized measures under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

QUARTERLY RESULTS

2003	Q-1	Q-2	Q-3	Q-4
	$	$	$	$
Revenue	**23,591,000**	**15,527,000**	**24,912,000**	**27,771,000**
Net earnings	**6,385,000**	**2,199,000**	**7,884,000**	**8,128,000**
Per share – basic	**0.36**	**0.12**	**0.43**	**0.44**
Cash flow from operations	**10,017,000**	**5,261,000**	**11,603,000**	**13,582,000**
Per share – basic	**0.56**	**0.29**	**0.64**	**0.74**

2002				
	$	$	$	$
Revenue	16,557,000	9,421,000	13,720,000	15,613,000
Net earnings	4,472,000	555,000	1,680,000	2,899,000
Per share – basic	0.25	0.04	0.09	0.16
Cash flow from operations	7,220,000	1,155,000	4,209,000	5,950,000
Per share – basic	0.41	0.06	0.24	0.33

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

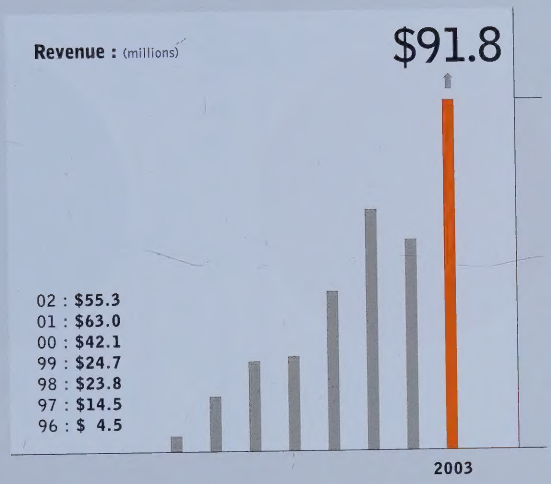
Management's Discussion and Analysis

The following discussion and analysis has been prepared by management and is a review of the financial results of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the years ended December 31, 2003 and 2002 and should be read in conjunction with the consolidated financial statements and accompanying notes.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Years Ended December 31,	2003	2002	Change
	$	$	%
Revenue			
Drilling recorder rentals	**45,149,000**	27,373,000	65
Pit volume totalizer rentals	**26,435,000**	16,149,000	64
Geological services	**5,847,000**	5,973,000	(2)
Total gas rentals	**4,529,000**	2,199,000	106
Choke control rentals	**2,750,000**	1,416,000	94
Auto driller rentals	**232,000**	–	–
Communications rentals	**3,412,000**	–	–
Mobilization and other income	**3,447,000**	2,201,000	57
Total revenue	**91,801,000**	55,311,000	66
Expenses			
Rental services	**23,367,000**	17,159,000	36
Geological services	**4,283,000**	4,608,000	(7)
Shop	**2,835,000**	2,359,000	20
Research and development	**3,663,000**	3,009,000	22
Administration	**2,647,000**	2,427,000	9
Stock-based compensation	**170,000**	–	–
Interest	**894,000**	1,107,000	(19)
Depreciation and amortization	**15,017,000**	8,913,000	68
Total expenses	**52,876,000**	39,582,000	34
Net earnings (after taxes)	**24,596,000**	9,606,000	156
Per share – basic	**1.35**	0.54	150
Cash flow from operations	**40,463,000**	18,534,000	118
Per share – basic	**2.23**	1.04	114
Margins			
Rental services	**73%**	66%	11
Geological services	**27%**	23%	17

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

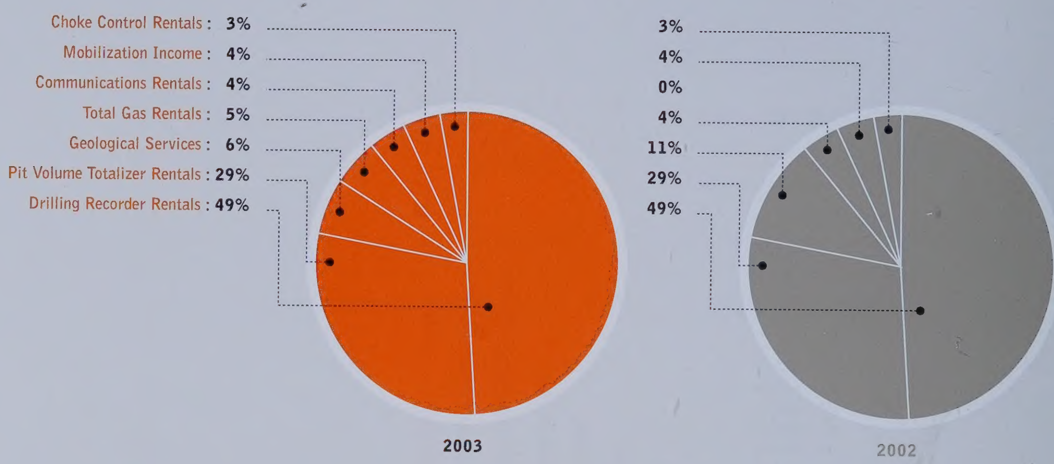


Pason's revenue is derived from the rental of instrumentation and data services to oil and gas companies and drilling contractors throughout Canada, the United States, Mexico and Argentina. For the fiscal year ended December 31, 2003, the Company recorded exceptional operating results. Having weathered a disappointing 2002 that was caused by a weak economy, unstable commodity prices and the ensuing downturn in oil and gas drilling activity, during 2003 Pason capitalized on the opportunities that were created in a volatile market. The Company continued to aggressively pursue its business strategy of maintaining steady growth through increased market share and by providing more products per rig site.

Revenue

Revenue, generated from instrumentation rentals and geological services, rose to $91.8 million in 2003 from $55.3 million recorded the prior year. This 66% jump was due to increases in the number of Canadian and U.S. industry drilling days (38% and 30%, respectively), the addition of new products, higher rental rates and a growing United States market share. The gain in the U.S. was offset somewhat by the declining U.S. dollar when converted to Canadian currency.

Revenue Mix :



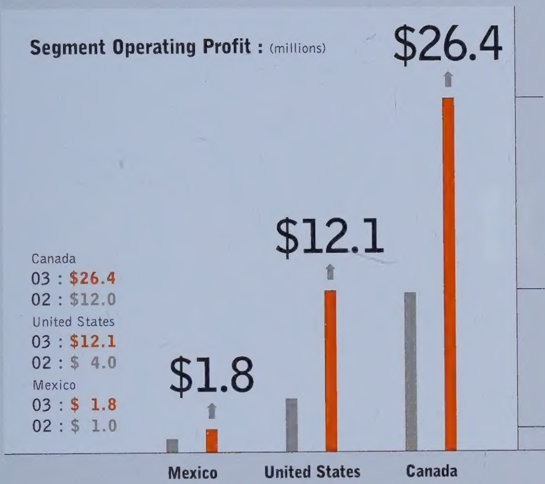
INSTRUMENTATION RENTALS

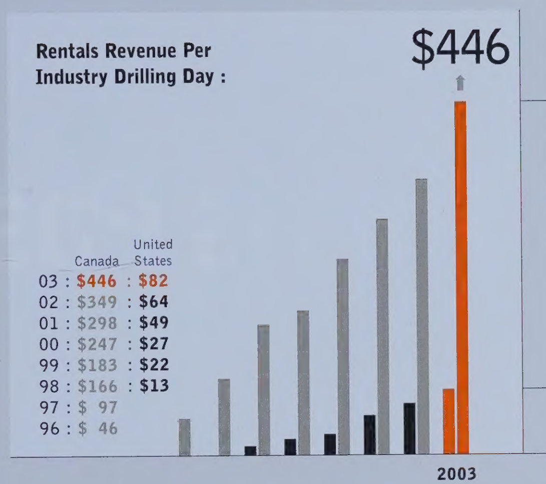
Pason delivers an integrated package of rental products that offers wellsite data acquisition and drilling management benefits at both the rig site and in the office. During 2003, revenue generated by instrumentation rentals totaled $86.0 million compared to $49.3 million a year ago. Canadian rentals revenue rose 77% to $56.7 million versus $32.1 million, rentals revenue generated from U.S. operations increased 69% to $27.1 million from $16.0 million, while revenue from activities in Mexico increased 79% to $2.2 million from $1.2 million in 2002. Year-over-year differences in currency exchange rates negatively impacted the Company's U.S. rentals revenue by $3.4 million. The gross margin (rentals revenue less rental expenses) as a percentage of revenue was 73% compared to 66% in 2002.

The development of the Company's Canadian and U.S. rentals revenue per industry drilling day is outlined below:

	Industry Drilling Days	Pason Rentals Revenue	Revenue Per Day
	#	$Cdn	$Cdn
Canada*			
1996	97,400	4,497,000	46
1997	128,000	12,400,000	97
1998	89,400	14,800,000	166
1999	81,800	15,000,000	183
2000	117,400	29,000,000	247
2001	120,400	35,900,000	298
2002	92,000	32,088,000	349
2003	**126,500**	**56,393,000**	**446**

* Source: Canadian Association of Oilwell Drilling Contractors.





	Industry Drilling Days	Pason Rentals Revenue	Revenue Per Day
	#	$Cdn	$Cdn
United States			
1998	258,400	3,300,000	13
1999	191,600	4,200,000	22
2000	281,400	7,500,000	27
2001	354,400	17,300,000	49
2002	253,700	16,276,000	64
2003	**329,500**	**26,962,000**	**82**

The daily rental value of the Company's current data acquisition, control and data management products as well as those in development could generate an economic package in excess of $1,000 per drilling day in Canada, creating the potential for continued growth in this market despite its significant EDR market share.

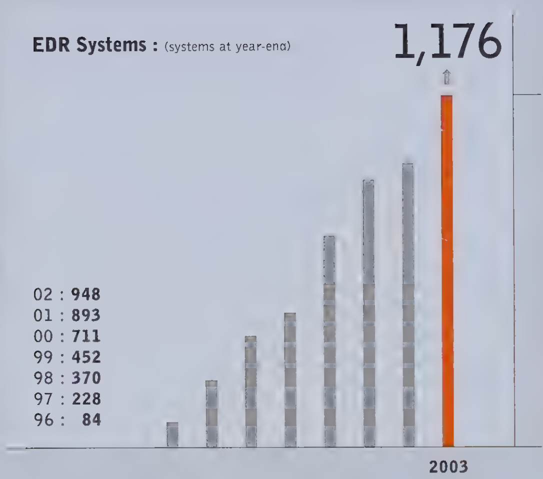
ELECTRONIC DRILLING RECORDERS

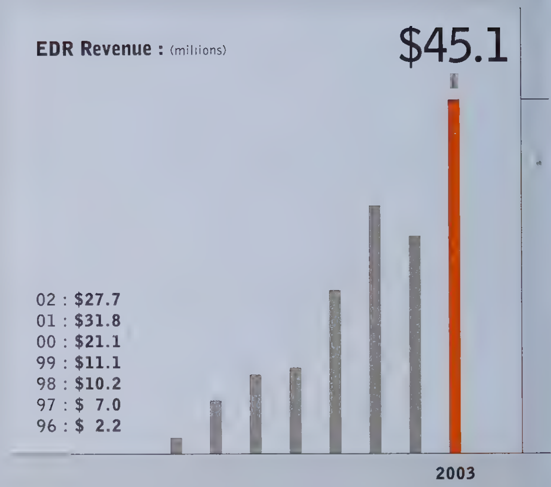
The Electronic Drilling Recorder (EDR) serves as the core of the Company's rig site presence. Pason's EDR is a complete system of instrumentation and monitoring equipment, which acts as a base for all data capture, data display and communications at the drilling wellsite, that is configured as required. During an industry slowdown in 2002, the Company met all requests for its EDR by building 56 new systems. In 2003, Pason built 228 new systems to meet the demand. At year-end, Pason's electronic data acquisition instrumentation had been installed on over 90% of all Canadian rigs and was on 33% of all active U.S. land rigs, thereby generating revenue of $45.1 million compared to $27.4 million recorded in 2002.

This is Pason

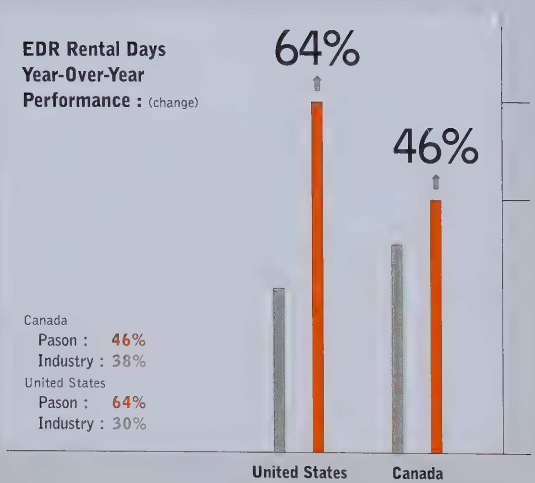
Pason's high-speed Internet satellite dishes link the rig site to the office with current drilling information.

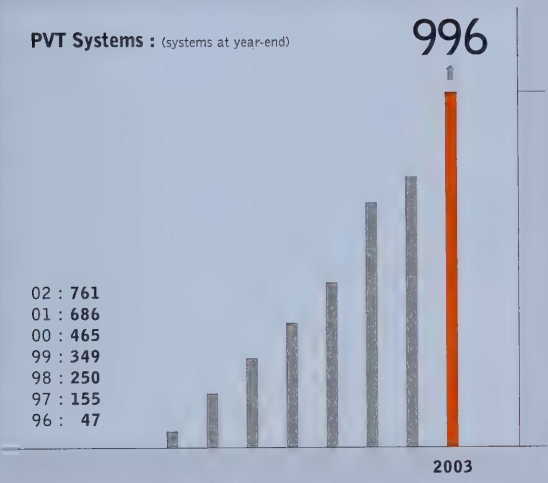
Pason's VSAT auto aimers, which are equipped with proprietary hardware and software to enable automatic aiming as they move from one wellsite to the next, provide broadband Internet system solutions that facilitate drilling information management.

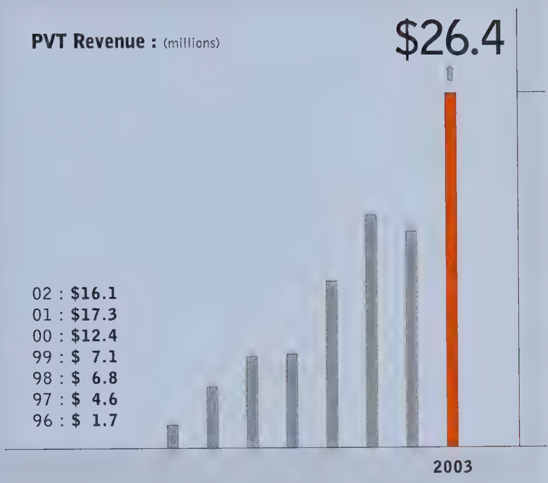




The 65% year-over-year revenue growth was primarily due to 46% and 64% increases in Pason's Canadian and U.S. EDR rental days, respectively, or from 83,700 to 122,500 in Canada and from 61,200 to 100,600 in the United States. Pason rental days for all products are determined by the accumulated billing days from all customer invoices. During 2003, the Company enhanced its software to allow its EDRs to take advantage of the broadband Internet access that Pason is now making economically viable and available at most well-sites. Also during the year, Pason significantly increased its EDR presence in the United States by shipping 140 units or 60% of its new builds to this expanding market.







PIT VOLUME TOTALIZERS

The Pit Volume Totalizer (PVT) is Pason's proprietary solution for the detection and early warning of "kicks" that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. At year-end, the Company's PVT had been installed on over 95% of Canadian and 60% of U.S. rigs operating with a Pason EDR system. A 52% and 71% increase in Canadian and U.S. PVT rental days, respectively, contributed to the 64% increase in PVT rentals revenue to $26.4 million from $16.1 million a year ago. The Company's Canadian PVT rental days totaled 111,400 compared to 73,200 in 2002, while U.S. rental days were 60,500 versus 35,300 a year ago. Canadian drilling regulations now allow operators to reduce surface casing depth when a PVT is employed, thereby justifying the use of this instrument on practically every well.

TOTAL GAS SYSTEMS

The Pason Total Gas System (TGAS) measures the total hydrocarbon gases (C1 through C5) exiting the wellbore and then calculates the lag time to show the formation depth where the gases were produced. The complex system, which was introduced to the marketplace in early 2001, provides a more accurate gas sample than competitor systems while reducing daily maintenance requirements. Revenue generated from this product increased in 2003 to total $4.5 million compared to $2.2 million recorded the prior year. Although these results were below Company expectations, they were significantly improved over 2002 and further growth is expected as Pason moves forward. At year-end, Pason's TGAS had been installed on 26% of Canadian and 16% of U.S. land rigs operating with a Pason EDR system.

CHOKE CONTROL SYSTEMS

Pason's Electronic Choke Control System is used to control and remove detected gas "kicks" from the wellbore. During 2003, revenue from this product was up 94% to $2.8 million from $1.4 million a year ago. This system has been installed on approximately 25% of all Canadian rigs in operation. Pason is pushing an unfamiliar business model where the choke valve portion of the system becomes the responsibility of the drilling contractor while Pason provides only the electronic actuation and display. Although this model provides greater industry safety, it has yet to gain acceptance in the United States, and therefore, to date the majority of revenue for this product has been derived from Canada, and more recently Mexico.

INTERNET DATAHUB

Pason's Internet DataHub has been in place since 1999, however the original vision has evolved to the point where the DataHub now provides a platform for several new services that are being marketed to the community of industry users who regularly visit the Pason DataHub site. As broadband Internet access to the rigs became more common in 2003, the DataHub became even more critical as it blends both historical and near real-time data access. There are currently over 4,000 registered users of the Pason Internet DataHub versus 2,900 a year ago.

PELOTON WELLVIEW®

In late 2002, the Company rolled out Peloton WellView®, a drilling data collection and reporting solution that is an integrated addition to Pason's EDR. Building on the wellsite engineering package developed by Peloton Computer Enterprises, a leading provider of this type of product, Peloton WellView® provides a generic engineering database capture module that follows the Pason EDR and the rigs on which it works. As a result, wellsite supervisors are more familiar with how to use the software, while drilling superintendents in the office no longer need to make special mobilization efforts for software and communications. Pason displays all data in standard forms on its Internet DataHub, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML.

SATELLITES – HIGH BANDWIDTH

In order to facilitate communications that are necessary for Peloton WellView® to function as well as to meet customer needs for more frequent drilling updates, Pason's high bandwidth satellite solution was rolled out in 2003. High-speed Internet satellite dishes are equipped with proprietary hardware and software to facilitate automatic aiming as they move from one wellsite to the next. The Company has not been able to fully meet demand for its automatic aiming satellite dishes due to development and manufacturing constraints, therefore Pason also has a number of manual aiming satellites in the field.

AUTODRILLER

Over the past three years, Pason has been developing an electronic autodriller used to maintain a constant weight on the drill bit or rate of penetration while drilling. Pason released this product on a limited basis in 2003 with much of the year spent testing its operation in the field. By the end of 2003, Pason had produced 81 autodrillers of which 66 were in Canada and 15 in the United States. The initial response has been very positive as evidenced by the fact that during the year, the Company was unable to keep up to the demand, a situation that will be rectified in 2004.

GEOLOGICAL SERVICES

In the United States, Pason provides skilled wellsite geologists and mudlogging technicians to monitor gas in the drilling returns, to pick formation tops and to analyze drilling cuttings. This service is offered only in the U.S. market because of the strong link between the geological service provider and the specialized equipment that is employed. Through Pason's unique suite of integrated instrumentation products, the Company can assist customers in an environment of scarce geological talent as well as provide significant cost savings with supervision of multiple wells by a single geologist. Year-over-year revenue generated from geological services decreased 2% from $6.0 million a year ago to $5.8 million in 2003. The gross margin for these services was 27%, up from 23% in 2002. Pason's geological services remain concentrated in the U.S. Rocky Mountain region where more complicated drilling structures increase the need for these specialized services.

Expenses

Total expenses rose 34% to $52.9 million in 2003 from $39.6 million the prior year. Expenses incurred by the Company over the past several years have reflected the cost associated with building and maintaining a field service infrastructure to accommodate the levels of activity experienced in 2003.

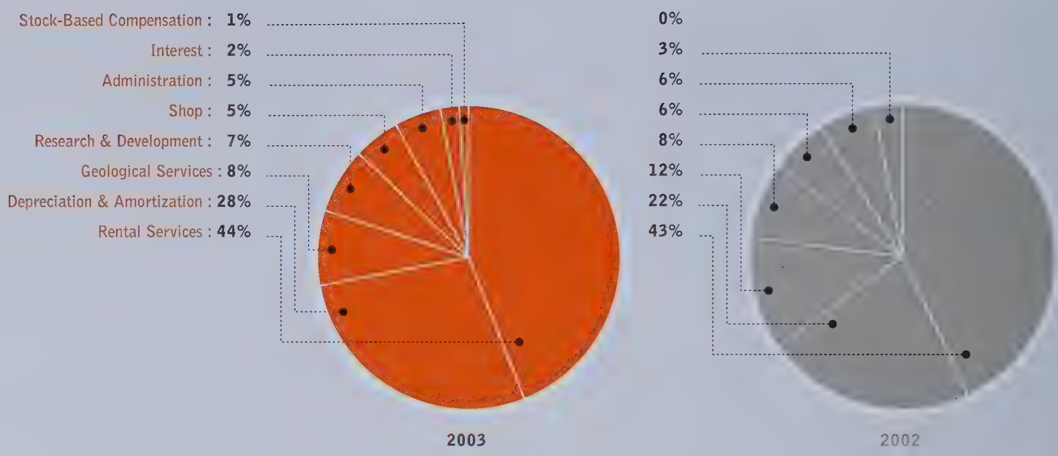
During 2003, rental services expenses, which represented 44% of total expenses, increased 36% to $23.4 million compared to $17.2 million in 2002. These expenses consisted primarily of wages and related benefit costs representing approximately 42% of the total rental services expenses in both Canada and the United States, and the additional direct costs of field servicemen, including but not limited to vehicle costs, communication, equipment repairs and freight. Of the $6.2 million increase in total rental services expenses, $4.3 million was incurred in Canada ($0.9 million for labour and related costs, $1.3 million for communication expenses, $0.6 million for vehicle related costs, $0.3 million each for repairs and freight and couriers, and the remaining $0.9 million was spread evenly across other expenses) and $1.9 million incurred in the United States ($0.8 million for labour and related costs, $0.4 million for each of vehicle and equipment repairs and $0.3 million for additional communication costs). As industry activities were expected to remain high during the first half of 2004 and in order to maintain strong levels of service, the Company continued to recruit and train additional field technicians as required. Pason's field technicians are employed year round, and as a result, the Company's related expenses have a heavily

This is Pason

Pason is committed to maintaining its reputation for industry best service at the wellsite.

Pason continues to recruit and train field service technicians to meet the growing demand for its products and to maintain operational efficiency as its business grows. In addition to initial equipment installation, setup and on-site training, Pason's highly skilled field service technicians provide 24/7 customer care service and support.

Expenses :



weighted fixed component that is critical to its high service level. At December 31, 2003, there were 94 field service technicians versus 80 at December 31, 2002 – a significant contributor to the increase in overall rental services expenses, especially in the United States.

Geological services expenses decreased 7% from $4.6 million to $4.3 million. Labour and related costs, which represented over 94% of these expenses compared to 85% in 2002, increased slightly during the year, however the increase was more than offset by improved recovery of mudlogging expenses and strict cost control measures. Geological services expenses are typically more variable weighted than in the rest of the Company.

Costs related to the assembly and distribution of Pason products, which make up shop expenses, rose 20% to $2.8 million from $2.4 million a year ago. Over 90% of the year-over-year increase was due to higher personnel costs required to increase the Company's work force and increased freight and shipping costs totaling $0.15 million each. There was also a higher allocation of the premises lease costs associated with the 2003 expansion of facilities totaling $0.1 million.

Research and development expenses, largely labour and occupancy related, increased 22% to $3.7 million from $3.0 million a year ago, while capitalized deferred development costs decreased 43% from $1.4 million in 2002 to $0.8 million in 2003. The complement of current projects was more heavily weighted to those being expensed rather than capitalized. Labour and related costs accounted for over 90% of the increase in expensed and capitalized

deferred development costs in 2003. At December 31, 2003, there were 42 employees devoted to research and development, up from 37 at December 31, 2002. R&D expenses are expected to increase approximately 8% in 2004.

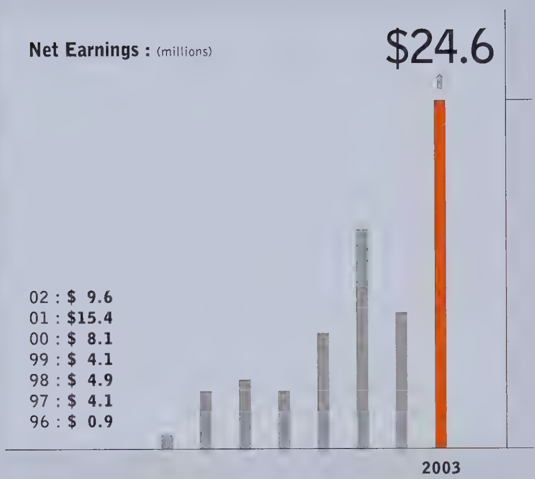
Administrative expenses increased 9% to $2.6 million from $2.4 million in 2002 with no notable expense contributing to this nominal $0.2 million year-over-year increase. The level of administrative expenses is expected to remain relatively constant in 2004.

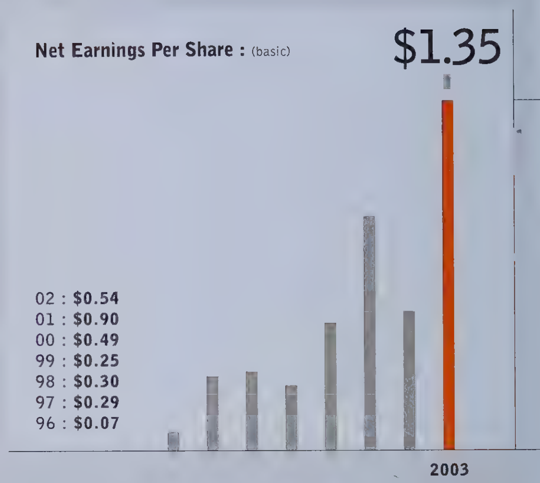
At year-end 2003, the Company adopted prospectively the new Canadian Institute of Chartered Accountants accounting recommendation for stock options, and as a result, all options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method, which for the year ended December 31, 2003 resulted in an expense of $0.2 million. If this recommendation had been in place for 2002, the expense for the year ended December 31, 2002 would have totaled $0.1 million. The corresponding accounting entry in 2003 creates the contributed surplus as shown under shareholders' equity on the Company's balance sheet.

Interest expense decreased 19% from $1.1 million to $0.9 million. In a period of strong drilling activity and the resulting improvement in operating cash flow, Pason's increased capital expenditures were financed from cash flow, which resulted in further use of its credit facilities due to the timing of the cash flow. During 2004, the use of lines of credit is expected to be moderate given the continued strong levels of drilling activity and demand for products. The Company continues to pay down its lease obligations, which in turn decreases the associated interest expense. These lease obligations will be fully paid off in 2004.

Depreciation and amortization expenses increased 68% to $15.0 million from $8.9 million in 2002, representing 28% of the year's total expenses versus 22% a year ago. A significant portion of the Company's tangible assets are depreciated using a unit-of-use method of depreciation as it best matches revenue and expenses. As a consequence, these expenses increased during 2003 reflecting the increases in rental days and $1.9 million of additional depreciation was recorded as a result of changes in accounting estimates. Effective 2003, a change to the EDR useful life was made based on management's observations as to equipment wear and tear and obsolescence. More specifically, the number of EDR rental days for the unit-of-use method was changed from 1,575 to 1,350. As at January 1, 2003, cables, which were previously depreciated as part of the EDRs, PVTs and TGAS, were reclassified to their own category and subsequently depreciated on a straight-line basis over 36 months instead of their respective rental days under the unit-of-use method.

Current income tax expense rose 134% to $14.3 million from $6.1 million in 2002. Higher earnings before tax of $23.2 million, up 147% from 2002, attributed to an increase in current taxes payable consistent with an increase in earnings before tax. The Company's current and future tax rate for 2003 was 36.8% versus 38.9% a year ago. As federal and provincial tax rates are expected to drop over the upcoming year, Pason will see the benefit in lower current and future tax.





Net Earnings

Net earnings increased significantly to $24.6 million or $1.35 per share basic from $9.6 million or $0.54 per share in 2002. This 156% earnings growth was due primarily to increases in the Company's revenue and margins as a result of strong drilling activity.

Cash Flow from Operations [1]

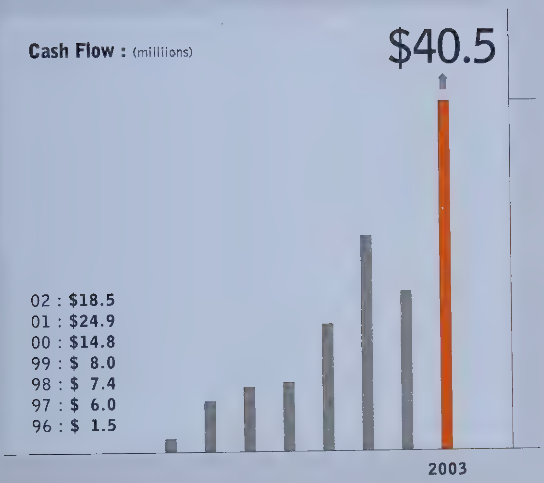
Operating cash flow rose 118% to $40.5 million or $2.23 per share basic in 2003 from $18.5 million or $1.04 per share basic a year ago. The $21.9 million cash flow gain was a result of a $15.0 million increase in earnings adjusted for $6.1 million in non-cash depreciation, $0.6 million in future income tax and $0.2 million in stock-based compensation. During 2003, cash flow was used primarily to finance the Company's expanded capital expenditures program, improve its year-end working capital position and pay dividends.

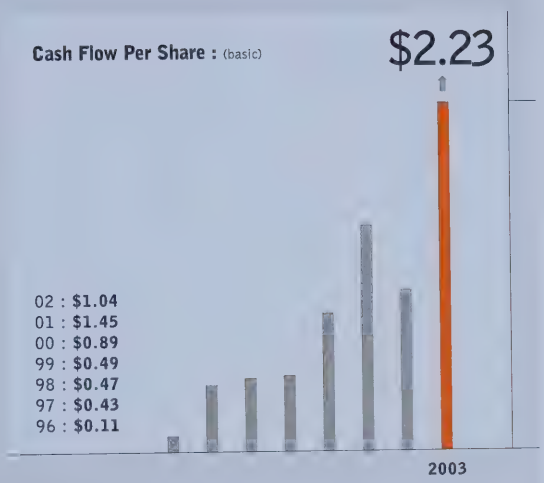
During 2003, Pason declared and paid its first semi-annual dividends on June 30 at $0.07 per share or $1.2 million and on December 31 at $0.10 per share or $1.9 million for total 2003 dividends of $0.17 per share or $3.1 million.

Margins

In 2003, the margin generated by the Company's rental products improved from 66% to 73%. The investment in service infrastructure made by Pason in 2002 allowed it to benefit from greater leverage on the increased activity in 2003. The Company, unlike many other

(1) For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies. Cash flow from operations including per share amounts are presented to assist readers in assessing non-discretionary cash flows generated and available for capital expenditures.





service providers, improves its margins primarily from an increased number of rental products per site and increased market share or volume. In mid-2003 and for the first time in seven years, Pason increased its prices thereby also contributing to an improvement in margins. The 2003 geological services margin rose to 27% from 23% a year ago. This level should be maintained and may improve in 2004 with increased volume.

Liquidity and Capital Resources

The Company's internal sources of liquidity are cash and cash flow from operations. External sources include the unutilized portion of revolving credit facilities and equipment financings by way of capital leases.

At December 31, 2003, the Company's working capital position was $9.2 million versus $4.3 million a year ago. The $7.8 million in working capital disclosed at December 31, 2002 versus the $4.3 million referred to reflects the reclassification of inventory, in the amount of $3.5 million, to a long-term capital asset retroactive to December 31, 2002. Due to the rental nature of Pason's business, inventory is treated as a capital asset.

Proceeds from the exercise of Company stock options totaled $3.6 million compared to $2.5 million in 2002, resulting in the issuance of 542,825 common shares versus 467,242 common shares the prior year. The average exercise price increased 22% to $6.60 per share from $5.41 per share in 2002.

During 2003, cash flow funded the Company's entire $34.0 million capital expenditures program, representing a 130% increase over the prior year's total expenditures amount of $14.1 million. Funds were used to acquire and build $33.2 million of new capital assets and product enhancements with a further $0.8 million being spent on deferred developments

This is Pason

Pason is the world's largest provider of land-based rental oilfield instrumentation.

Pason's tightly integrated package of complex services includes data acquisition, wellsite reporting software, remote communications and Internet information management tools aimed at linking data flow from the rig to the office. Pason continues to refine its current suite of hardware products as well as aggressively investigates and develops new applications.

costs versus $12.7 million and $1.4 million, respectively, in 2002. Geographically, $20.5 million of the new capital assets were in Canada, $12.2 million in the U.S. and $0.5 million in Mexico. This compares to $8.6 million, $4.2 million and $0.6 million, respectively, a year ago. Given the strength in commodity prices and the high level of drilling activity experienced during 2003 and anticipated again in 2004, a ramp up in capital expenditures was initiated during the 2003 first quarter and continues into 2004 when capital expenditures are expected to total $25 to $30 million.

At December 31, 2003, the Company had no long-term capital lease obligations. All leases will be fully discharged in 2004.

The Company's maximum operating line of credit is $9.0 million in Canada including US$1.5 million for the United States. At December 31, 2003, $4.2 million and US$nil, respectively, were drawn on these facilities.

New Products

WEBPAY

Pason has been developing WebPay since 2001. WebPay is a solution for the challenges faced in gathering, approving and processing charges generated at remote rig sites. The Company has been working primarily with a U.S. drilling contractor and the benefits from the system's automatic charge creation, rapid approval and the complete absence of paper have already been achieved. Pason originally expected to have the product ready for use in limited circumstances by the middle of 2003; however, it has subsequently changed its plans for the product and now intends to implement WebPay internally in 2004 as part of Pason's own invoicing and approval procedures. Further external uses will be reviewed as the product continues to evolve.

Through its rental products, Pason continues to add value to the data acquired at the wellsite. The Company's vision is to converge all drilling engineering and financial wellsite data together on one Internet site. This site will provide internally developed management tools with broad market appeal plus facilities to download data into more narrowly focused third party specialty applications. For competitive reasons, it is the Company's policy not to disclose details of a new product until in an advanced prototype stage since its commercial viability is often not determined until that time.

New Markets

In 2001, Pason developed a new international business model for renting its equipment in countries where drilling rig instrumentation has typically been purchased. Pason rents its equipment package that primarily includes an EDR, PVT and TGAS for each rig, and then partners with a local service provider who has been trained in Pason's service culture to supply the necessary local service and support. As a result, Pason retains ownership of its equipment while protecting itself from overhead and unexpected costs associated with local service companies.

Pason's first serious international operation employing this model commenced in Mexico in May 2001 whereby the Company provided five rig instrumentation packages while service support was provided by a local Mexican company. Over the past three years, increased activity levels and strong customer satisfaction in that country have led to increased opportunities for Pason. During 2003, operations from this market contributed $2.2 million to the Company's total rentals revenue. Pason currently provides instrumentation packages for 23 rigs in Mexico.

Through the success of this business model, Pason expanded its operations into the Argentine market during 2003. Currently, Pason EDRs are installed on 15 rigs and could equal the Mexican rig count later in 2004. Acceptance of the Company's EDRs has been encouraging, which is largely due to the excellent work of Pason's local partner who has made great strides in replicating Pason's service culture in his first year of business. Pason still has work to do, however, in outfitting each site with more products in order to generate more revenue per site and thereby record material results in this market going forward.

Pason will continue to investigate new markets as justified by the existence of a reputable Western service company that would carry Pason into the market, or alternatively by a strong local service provider with a desire to run Pason products.

Business Risks

Pason derives its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors throughout Canada, the United States, Mexico and Argentina. As a result, the major area of uncertainty for Pason is that the demand for its services is directly related to the strength of its customers' capital expenditures programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of Pason and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices. The creation of royalty trusts with limited drilling activity, the large capital-intensive oil sands projects and expanding international activities by many energy companies all influence the level of capital expenditures in Canada, in particular.

Weakness in commodity prices can also impact the ability of the Company's customers to pay for the services provided. However, as Pason has a very broad customer base and its services are a minor component when looking at the overall cost of drilling a well, the risk is minimal.

In late 2002, the Government of Canada ratified the Kyoto Protocol. Details of its implementation and associated costs have yet to be determined, and as a result, the effect on customers' cash flow and capital expenditures programs remain uncertain.

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for the Company's services, as customers tend to focus on reorganization activities prior to committing funds to major drilling programs.

In addition to the cyclical nature of its business, Pason is also subject to risks and uncertainties associated with weather and seasonality. Pason continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States, Mexico and Argentina where these factors are less likely to influence activity.

The Company does not employ hazardous materials, so the possibility of environmental liabilities is limited.

Pason carries adequate levels of insurance to protect the Company. Due to the wide geographical distribution of equipment, the possibility of a loss to a significant portion of its asset base is extremely unlikely. As the Company's equipment is largely unmanned, the customer assumes responsibility for its operations.

Outlook

Given the relatively stable commodity prices posted throughout 2003, Canadian drilling activity for the year reached over 20,000 wells with approximately 126,500 drilling days. If current pricing levels are maintained, 2004 is forecast to be better than 2003 both in terms of wells drilled, at 21,500, and the number of drilling days, at 128,100. Pason continues to be well positioned to profit from the high levels of oilfield activity and increased international market share. The Company expects to spend in excess of $25.0 million during 2004 to add new products, new units of existing products and enhancements in Canada, and to a greater extent in the United States, Mexico and Argentina where significant room for additional market share exists. The Company will continue to pursue new international opportunities that fall within its service model parameters.

Pason remains focused on maximizing the relationship between operating efficiencies, operating costs and customer service. Its strengths in hardware design, software development, data communications, storage infrastructure and service support allow Pason to continue to outperform the general industry, and as a result, continue to offer superior shareholder value.

Management's Report

To the Shareholders of Pason Systems Inc.

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring management meets their financial reporting responsibilities.

J D Hill

Jim Hill : President & Chief Executive Officer

J Dickie

Joanne Dickie : Chief Financial Officer

Calgary, Alberta
March 4, 2004

Auditors' Report

To the Shareholders of Pason Systems Inc.

We have audited the consolidated balance sheets of Pason Systems Inc. as at December 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
February 20, 2004

Consolidated Balance Sheets

December 31,	2003	2002
	$	$
Assets		
Current		
Cash and term deposits	**1,657,905**	676,995
Accounts receivable	**28,941,190**	16,503,650
Income taxes receivable	**3,882**	1,630,962
Prepaid expenses	**460,935**	435,812
	31,063,912	19,247,419
Capital assets **(note 5)**	**78,026,556**	67,633,195
Deferred development costs **(note 6)**	**3,198,977**	3,310,157
	112,289,445	90,190,771
Liabilities		
Current		
Bank indebtedness **(note 7)**	**4,170,000**	4,994,442
Accounts payable and accrued liabilities	**7,878,001**	6,301,521
Income taxes payable	**7,290,496**	–
Current portion of long-term debt **(note 8)**	**–**	275,148
Current portion of obligations under capital leases **(note 9)**	**2,490,797**	3,380,966
	21,829,294	14,952,077
Long-term debt **(note 8)**	**–**	114,594
Obligations under capital leases **(note 9)**	**–**	2,977,768
Future income taxes **(note 11)**	**6,557,820**	6,268,049
	28,387,114	24,312,488
Shareholders' Equity		
Share capital **(note 10)**	**20,155,478**	16,574,608
Contributed surplus **(note 10)**	**169,940**	–
Foreign currency translation adjustment **(note 4)**	**(5,304,362)**	1,906,588
Retained earnings	**68,881,275**	47,397,087
	83,902,331	65,878,283
	112,289,445	90,190,771

Approved by the Board of Directors

Harold R. Allsopp : Director

James B. Howe : Director

Consolidated Statements of Earnings and Retained Earnings

Years Ended December 31,	2003	2002
	$	$
Revenue	**91,801,215**	55,310,995
Expenses		
Rental services	**23,367,247**	17,158,668
Geological services	**4,283,311**	4,608,430
Shop	**2,835,251**	2,358,718
Research and development	**3,663,317**	3,008,520
Administration	**2,647,259**	2,426,980
Stock-based compensation **(note 10)**	**169,940**	–
Interest on long-term obligations	**444,099**	762,420
Interest – other	**449,860**	345,775
Depreciation and amortization	**15,016,512**	8,912,837
	52,876,796	39,582,348
Earnings before income taxes	**38,924,419**	15,728,647
Income taxes (note 11)		
Current	**13,647,852**	6,107,492
Future	**680,481**	14,816
	14,328,333	6,122,308
Net earnings	**24,596,086**	9,606,339
Retained earnings, beginning of year	**47,397,087**	37,790,748
Dividends	**(3,111,898)**	–
Retained earnings, end of year	**68,881,275**	47,397,087
Earnings per share **(note 13)**		
Basic	**1.35**	0.54
Diluted	**1.31**	0.53

Consolidated Statements of Cash Flows

Years Ended December 31,	2003	2002
	$	$
Cash flows related to the following activities:		
Operating		
Net earnings	**24,596,086**	9,606,339
Adjustments for:		
Depreciation and amortization	**15,016,512**	8,912,837
Stock-based compensation	**169,940**	–
Future income taxes	**680,481**	14,816
Cash flow from operations	**40,463,019**	18,533,992
Changes in non-cash working capital	**(2,560,963)**	(5,958,902)
	37,902,056	12,575,090
Financing		
Issue of common shares under the employee stock option plan	**3,580,870**	2,528,973
Repayment of long-term debt	**(389,742)**	(283,310)
Repayment of capital leases	**(3,867,937)**	(3,351,661)
Payment of dividends	**(3,111,898)**	–
	(3,788,707)	(1,105,998)
Investing		
Purchase of capital assets	**(33,247,269)**	(12,668,615)
Deferred development costs	**(793,468)**	(1,400,649)
Proceeds on disposal of capital assets	**335,547**	300,960
Changes in non-cash working capital	**1,397,193**	(661,948)
	(32,307,997)	(14,430,252)
Net increase (decrease) in cash and cash equivalents	**1,805,352**	(2,961,160)
Cash and cash equivalents, beginning of year	**(4,317,447)**	(1,356,287)
Cash and cash equivalents, end of year	**(2,512,095)**	(4,317,447)
Represented by:		
Cash and term deposits	**1,657,905**	676,995
Bank indebtedness	**(4,170,000)**	(4,994,442)
	(2,512,095)	(4,317,447)

Supplemental cash flow information **(note 15)**

Notes to Consolidated Financial Statements

Years Ended December 31, 2003 and 2002

1 : Description of Business

Pason Systems Inc. (the "Company") designs and manufactures for rent, specialized proprietary instrumentation for use on land-based drilling rigs.

2 : Basis of Presentation

The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries Pason Systems Corp., Pason US Holdings Corp., Pason de Mexico S.A. de C.V. and Pason Systems USA Corp, a wholly-owned subsidiary of Pason US Holdings Corp.

Certain comparative figures have been reclassified to conform to the current year presentation.

3 : Changes in Accounting Estimates

The electronic drilling recorders are recorded at cost and in 2002 were depreciated using a unit-of-use depreciation method based on 1,575 rental days with a 10% salvage or residual value. Prior to 2002, the unit-of-use depreciation method was based on 1,800 rental days with a 10% salvage or residual value. In 2003, management made a further decision, based on additional operating experience, to change the number of rental days to 1,350 for the unit-of-use depreciation method rental days for electronic drilling recorders with a 10% salvage or residual value. This change in accounting estimate has been applied prospectively effective January 1, 2003.

Effective January 1, 2003, the purchase of all electronic cables, that were previously included as part of the electronic drilling recorders, pit volume totalizers, drilling control chokes and total gas systems, were classified separately and are being depreciated on a straight-line basis over 36 months.

The impact of these changes on the year ended December 31, 2003 was to increase depreciation expense by $1,945,244.

4 : Significant Accounting Policies

CAPITAL ASSETS

Capital assets include parts and raw material awaiting assembly into capital assets. Parts and raw materials previously classified as current assets at December 31, 2002 have been reclassified for comparative purposes. No depreciation is recorded for parts and raw material awaiting assembly.

The electronic drilling recorders, both owned and under capital lease, are recorded at cost and effective January 1, 2003, are depreciated using a unit-of-use method based on 1,350 rental days with a 10% salvage or residual value. Pit volume totalizers, both owned and under capital lease, and electronic drilling choke controls are recorded at cost and are depreciated using a unit-of-use method based on 1,800 rental days with a 10% salvage or residual value. Total gas systems are recorded at cost and are depreciated using a unit-of-use method based on 1,125 rental days with a 10% salvage or residual value.

All other capital assets, except satellite telephones, are recorded at cost and are depreciated using the declining-balance method at the following annual rates:

Geological services equipment	10%
Trucks and trucks under capital lease	30%
Other	20%

4 : Significant Accounting Policies (continued)

Satellite (low bandwidth) telephones are recorded at cost and, effective July 1, 2002, are depreciated on a straight-line basis over 30 months. Satellites (high bandwidth), which are new in 2003, are recorded at cost and depreciated on a straight-line basis over 36 months. Electronic cables are recorded at cost and effective January 1, 2003, are being depreciated on a straight-line basis over 36 months.

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, which range from two to ten years.

RESEARCH AND DEVELOPMENT

The Company expenses all research expenditures as incurred, net of related investment tax credits. Development costs, net of related input tax credits are expensed as incurred, unless they meet the criteria for deferral and amortization under Canadian generally accepted accounting principles.

Development costs incurred on new product development projects, which, in the management's view, have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and are amortized over three years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs are expensed.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at average semi-monthly exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a foreign currency translation adjustment account in shareholders' equity.

GOODWILL

Goodwill, included in capital assets, is recorded at cost and effective January 1, 2002, is not being amortized. The recorded amount of goodwill is subject to periodic review to ensure that the fair value remains greater than, or equal to, book value. Any excess of book value over fair value is charged to income in the period in which the impairment is determined to have occurred.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period that the change is substantially enacted, based on the rates in effect when the temporary differences are expected to reverse. Investment tax credits are recorded when received.

REVENUE RECOGNITION

Revenue is recognized based upon completion of each rental day for rental products and geological services during the reporting period, provided collectibility is reasonably assured.

STOCK-BASED COMPENSATION PLANS

The Company has an employee stock option plan. Prior to December 31, 2003, the Company accounted for its stock options based on intrinsic values whereby no compensation cost is recognized in the consolidated financial statements for stock options granted to employees and directors. Any consideration received on the exercise of stock options is credited to share capital. During the fourth quarter of 2003, the Company adopted the new accounting recommendation for stock compensation expense, whereby the stock options are accounted for using the fair value method estimated on the date of grant using the Black-Scholes option-pricing model. The new method has been adopted prospectively for stock options issued to employees and directors after December 31, 2002 and results in recording stock-based compensation costs.

4 : Significant Accounting Policies (continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the amortization period for capital assets, the assessment of the viability of new product development projects and the provision for doubtful accounts receivable. Actual results could differ significantly from these estimates.

5 : Capital Assets

2003	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Parts and raw material	**6,173,639**	**–**	**6,173,639**
Electronic drilling recorders	**46,577,042**	**10,532,995**	**36,044,047**
Electronic drilling recorders under capital lease	**8,172,440**	**1,560,193**	**6,612,247**
Satellite (low bandwidth) telephones	**4,976,348**	**2,993,780**	**1,982,568**
Satellites (high bandwidth)	**2,232,607**	**411,782**	**1,820,825**
Pit volume totalizers	**11,449,887**	**2,880,185**	**8,569,702**
Pit volume totalizers under capital lease	**1,835,159**	**697,547**	**1,137,612**
Total gas systems	**4,255,870**	**238,823**	**4,017,047**
Electronic cables	**4,161,162**	**547,063**	**3,614,099**
Geological services equipment	**3,801,088**	**3,092,023**	**709,065**
Electronic drilling choke controls	**2,042,766**	**469,184**	**1,573,582**
Trucks	**1,543,687**	**835,306**	**708,381**
Trucks under capital lease	**336,843**	**242,594**	**94,249**
Leasehold improvements	**4,309,837**	**1,705,536**	**2,604,301**
Computer equipment	**3,407,345**	**2,609,264**	**798,081**
Other	**3,487,747**	**1,920,636**	**1,567,111**
	108,763,467	**30,736,911**	**78,026,556**

2002			
	$	$	$
Parts and raw material	3,480,100	–	3,480,100
Electronic drilling recorders	36,761,332	5,809,110	30,952,222
Electronic drilling recorders under capital lease	10,296,792	1,627,122	8,669,670
Satellite (low bandwidth) telephones	5,461,598	1,428,787	4,032,811
Satellites (high bandwidth)	414,056	9,042	405,014
Pit volume totalizers	9,564,677	2,416,800	7,147,877
Pit volume totalizers under capital lease	2,185,160	552,146	1,633,014
Total gas systems	2,606,233	104,357	2,501,876
Geological services equipment	4,521,592	3,208,128	1,313,464
Electronic drilling choke controls	1,713,400	320,801	1,392,599
Trucks	1,390,765	905,672	485,093
Trucks under capital lease	1,287,797	1,174,106	113,691
Leasehold improvements	4,224,893	1,291,630	2,933,263
Computer equipment	2,720,906	1,900,533	820,373
Other	3,344,084	1,591,956	1,752,128
	89,973,385	22,340,190	67,633,195

5 : Capital Assets (continued)

Depreciation and amortization expense recorded with respect to capital assets in 2003 was $14,111,864 (2002 – $8,002,055). Included in other capital assets is the book value of goodwill recorded by Pason Systems USA Corp in the amount of $408,515 (2002 – $496,957).

6 : Deferred Development Costs

	2003	2002
	$	$
Accumulated costs, beginning of year	**5,346,016**	3,945,367
Additional costs deferred during the year	**793,468**	1,481,374
Non commercial project costs expensed during the year	**–**	(80,725)
	6,139,484	5,346,016
Accumulated amortization	**(2,940,507)**	(2,035,859)
Net deferred development costs, end of year	**3,198,977**	3,310,157

The amortization recorded in 2003 was $904,648 (2002 – $910,782).

7 : Bank Indebtedness

The Company's subsidiary, Pason Systems Corp., has a $9,000,000 demand credit facility that bears interest at the Canadian bank prime rate plus 0.50% per annum. At December 31, 2003, an amount of $4,170,000 had been drawn on this credit facility (2002 – $3,360,000 on the $5,000,000 facility then in place). The credit facility is used by the Company for temporary cash shortfalls; accordingly, amounts drawn are included with cash and cash equivalents in the consolidated statements of cash flows.

Also in 2003, the Company put in place a $3,500,000 non-revolving term facility that bears interest at the Canadian bank prime rate plus 0.50% per annum. Borrowings under this facility are repayable by consecutive monthly principal payments commencing March 29, 2004 and the balance is to be repaid in full by February 27, 2005. No balance was outstanding on this facility at December 31, 2003. At any time after February 28, 2004, the lender at its sole discretion may cancel any unutilized portion of this facility unless a later date has been agreed to by both parties. This facility, together with the line of credit, is secured by a general security agreement from Pason Systems Corp. and Pason Systems USA Corp.

The Company's U.S. subsidiary has a US$1,500,000 (CDN$1,938,600) revolving line of credit that bears interest at the United States bank prime rate less 0.5% per annum. The revolving line of credit requires monthly interest payments and matures September 15, 2004. At December 31, 2003, an amount of US$nil (CDN$nil) (2002 – US$1,039,589 (CDN$1,634,442)) was drawn on the line of credit. The line of credit is guaranteed by a Letter of Guarantee from a Canadian bank.

8 : Long-Term Debt

The Company's U.S. subsidiary had a US$700,000 (CDN$904,680) term facility at prime rate plus 0.5% per annum that required monthly principal payments of US$14,584 (CDN$18,848) plus interest to May 20, 2004. A general assignment of the subsidiary's accounts receivable, capital assets and inventory is pledged as collateral. At December 31, 2003, this facility was repaid in full (2002 – US$247,896 (CDN$389,742)).

9 : Obligations Under Capital Leases

Future payments under capital leases, which includes the buyouts at the end of the leases, where applicable, as at December 31, 2003 and 2002 are as follows:

	2003	2002
	$	$
2003	–	4,043,625
2004	**2,578,332**	2,772,645
	2,578,332	6,816,270
Imputed interest on leases at 7% to 9%	**87,535**	457,536
	2,490,797	6,358,734
Less current portion	**2,490,797**	3,380,966
	–	2,977,768

10 : Share Capital

Authorized
  Unlimited number of common shares
  Unlimited number of preferred shares
Issued
  Common shares

	Shares	Amount
	#	$
Balance, December 31, 2001	17,436,029	**14,045,635**
Exercise of employee stock options	467,242	**2,528,973**
Balance, December 31, 2002	17,903,271	**16,574,608**
Exercise of employee stock options	542,825	**3,580,871**
Balance, December 31, 2003	18,446,096	**20,155,479**

At December 31, 2003, 1,652,275 stock options, that vest over three years, were outstanding for common shares at exercise prices ranging from $3.80 to $25.20 per share, expiring between April 20, 2004 and December 30, 2008 as follows:

	2003		2002	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	#	$	#	$
Outstanding, beginning of year	**1,639,400**	**8.04**	1,872,142	6.63
Granted	**695,000**	**19.72**	353,500	12.19
Exercised	**(542,825)**	**6.60**	(467,242)	5.41
Cancelled	**(139,300)**	**10.24**	(119,000)	8.61
Outstanding, end of year	**1,652,275**	**13.24**	1,639,400	8.04
Exercisable, end of year	**591,092**		642,650	
Available for grant, end of year	**192,335**		508,992	

10 : Share Capital (continued)

2003	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
$	#	Years	$	#	$
3.80 – 9.00	**676,400**	**2.18**	**7.25**	**500,700**	**7.25**
9.01 – 18.00	**512,375**	**3.91**	**12.81**	**90,392**	**11.50**
18.01 – 25.20	**463,500**	**4.91**	**22.44**	–	–
	1,652,275	**3.48**	**13.24**	**591,092**	**7.90**

The Company is authorized to issue 7,500,000 shares under option of which 4,850,150 had been issued to December 31, 2003. The total number of options outstanding must not exceed 10% of the total common shares outstanding.

Prior to 2003, the Company accounted for its stock option plan using the intrinsic value of options issued, whereby no compensation costs were recognized in the consolidated financial statements for stock options granted to employees and directors. If the fair value method had been used, the Company's net earnings and net earnings per share for 2003 and 2002 would approximate the following pro-forma amounts:

Years Ended December 31,	2003	2002
	$	$
Additional compensation costs	**384,860**	127,152
Net earnings		
As reported	**24,596,086**	9,606,339
Pro-forma	**24,211,226**	9,479,187
Net earnings per common share		
Basic		
As reported	**1.35**	0.54
Pro-forma	**1.33**	0.53
Diluted		
As reported	**1.31**	0.53
Pro-forma	**1.29**	0.52

The fair value of each option granted during the year ended December 31, 2002 has been estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

Year Ended December 31,	2002
Risk free interest rate **(%)**	4.29
Expected option life **(years)**	3.16
Expected volatility **(%)**	40.00
Annual dividends per share **($)**	0.00
Fair value of stock options granted **($)**	4.00

Stock options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method as stock-based compensation expense of $169,940 in the consolidated statement of earnings, using the following weighted average assumptions:

10 : Share Capital (continued)

Year Ended December 31,	2003
Risk free interest rate (%)	**3.76**
Expected option life (years)	**3.13**
Expected volatility (%)	**35.00**
Annual dividends per share ($)	**0.17**
Fair value of stock options granted ($)	**5.28**

The corresponding credit of $169,940 creates the contributed surplus under shareholders' equity.

11 : Provision for Income Taxes

The provision for income taxes reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 37.5% for 2003 and 39.6% for 2002. In addition, Pason Systems USA Corp, was subject to federal and state statutory tax rates of 40% for 2003 and 2002. The main differences are as follows:

	2003	2002
	$	$
Earnings before income taxes	**38,924,419**	15,728,647
Expected income taxes	**14,596,657**	6,192,857
Increase (decrease) resulting from:		
Amounts not deductible for tax	**259,086**	196,239
Foreign income tax rates	**(317,797)**	(180,838)
Non-taxable dividends	**(675,000)**	(102,737)
Additional permanent differences and other	**465,387**	16,787
Provision for income tax expense	**14,328,333**	6,122,308

The Company has future income tax liabilities related to temporary differences between the actual book value and the tax value of the capital assets in the amount of $9,287,000 (2002 – $8,091,000). The Company has available U.S. net operating losses of $6,822,000 (2002 – $4,558,000), of which a benefit of $2,728,800 (2002 – $1,823,000) has been recognized in the consolidated financial statements. These losses expire at various times up to 2022.

12 : Financial Instruments

The carrying values of financial instruments, which include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, obligations under capital lease, income tax receivable and payable, approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties.

The Company is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. However, the Company has a large number of customers, which minimizes concentration of credit risk.

A significant portion of the Company's operations relates to subsidiaries located in the United States and Mexico that are considered self-sustaining. As a result of fluctuations to foreign exchange rates, the Company is exposed to varying foreign exchange risks.

The Company is exposed to interest rate risk on its floating rate credit facilities.

13 : Per Share Amounts

Basic earnings per share figures have been calculated using 18,175,043 (2002 – 17,747,752) weighted average number of common shares outstanding during the year. Diluted amounts per share have been calculated based on the treasury method using the weighted average number of common shares and dilutive equity instruments representing 18,820,653 shares (2002 – 18,275,716).

14 : Segmented Information

The Company operates in three geographic segments within one industry segment. Rental services are provided in Canada, the United States and Mexico. The amounts related to each segment are as follows:

2003	Canada	United States	Mexico	Total
	$	$	$	$
Revenue from external customers	**56,686,168**	**32,964,731**	**2,150,316**	**91,801,215**
Depreciation and amortization	**10,254,100**	**4,546,657**	**215,755**	**15,016,512**
Operating costs	**20,010,264**	**16,307,526**	**147,750**	**36,465,540**
Segment operating profit	**26,421,804**	**12,110,548**	**1,786,811**	**40,319,163**
Interest on long-term obligations				**444,099**
Interest – other				**449,860**
Corporate expenses				**500,785**
Income tax expense				**14,328,333**
Net earnings				**24,596,086**
Identifiable assets	**77,495,390**	**32,705,162**	**2,088,893**	**112,289,445**
Capital expenditures	**20,476,278**	**12,192,561**	**578,430**	**33,247,269**

2002	Canada	United States	Mexico	Total
	$	$	$	$
Revenue from external customers	32,104,008	22,002,487	1,204,500	55,310,995
Depreciation and amortization	5,875,449	2,927,976	109,412	8,912,837
Operating costs	14,254,706	15,028,333	54,635	29,337,674
Segment operating profit	11,973,853	4,046,178	1,040,453	17,060,484
Interest on long-term obligations				762,420
Interest – other				345,775
Corporate expenses				223,642
Income tax expense				6,122,308
Net earnings				9,606,339
Identifiable assets	58,591,018	29,685,211	1,914,542	90,190,771
Capital expenditures	8,707,908	3,961,758	660,897	13,330,563

15 : Supplemental Cash Flow Information

Interest paid during 2003 was $893,959 (2002 – $1,108,195). Income tax paid during 2003 was $5,688,797 (2002 – $11,007,047).

16 : Commitments

The Company entered into a master lease for Calgary office premises expiring May 31, 2010 with an option for an additional five (5) years. The minimum annual rental payments in 2004 and 2005 are $565,514 and $659,810 in each of 2006 through 2010. Minimum annual lease payments of $122,585 to September 30, 2004 are required under the Company's Denver lease and minimum average annual lease payments of $74,000 to December 31, 2006 are required under the Company's Houston lease.

The Company entered into operating leases on its new vehicles with minimum annual rental payments in 2004 of $1,621,224; 2005 of $728,853 and 2006 of $771,639.

The Company is in the preliminary stages of defending a United States patent infringement lawsuit. At this time, management's assessment of the outcome is that the claim is not valid, and as a result, it is not expected to have a significant adverse impact on the Company's financial statements or operations. Accordingly, no amount has been accrued for the claim in the consolidated financial statements at December 31, 2003.

Historical Review

SELECTED FINANCIAL DATA

Years Ended December 31,	2003	2002	2001	2000	1999	1998	1997	1996
(000s, except per share amounts)	$	$	$	$	$	$	$	$
Operating Results								
Revenue	**91,801**	55,311	63,016	42,144	24,668	23,768	14,496	4,497
Expenses								
Rental services	**23,367**	17,159	13,641	9,290	5,649	4,830	2,348	1,029
Geological services	**4,283**	4,608	6,262	5,326	3,852	3,568	911	–
Shop	**2,835**	2,359	2,551	1,900	1,426	1,125	740	298
Administration	**2,647**	2,427	2,415	2,826	1,867	1,631	702	441
Research & development	**3,663**	3,009	2,750	2,006	1,403	967	508	222
Stock-based compensation	**170**	–	–	–	–	–	–	–
Depreciation & amortization	**15,017**	8,913	7,341	5,340	2,898	2,584	1,689	580
Net earnings	**24,596**	9,606	15,437	8,117	4,084	4,900	4,102	909
Per share – basic	**1.35**	0.54	0.90	0.49	0.25	0.30	0.29	0.07
Cash flow from operations	**40,463**	18,534	24,941	14,797	7,966	7,417	6,014	1,537
Per share – basic	**2.23**	1.04	1.45	0.89	0.49	0.47	0.43	0.11
Capital expenditures	**34,041**	14,069	22,921	23,419	10,851	8,294	7,957	2,438
Financial Position								
Current assets	**31,064**	22,728	20,276	18,150	11,461	10,470	10,529	3,028
Total assets	**112,289**	90,191	82,252	64,451	40,193	30,736	25,179	7,346
Working capital	**9,235**	4,295	5,135	1,416	3,283	5,769	3,824	600
Long-term debt	**–**	115	395	635	–	–	233	364
Future income tax	**6,558**	6.268	6,284	3,800	2,159	1,030	860	81
Shareholders' equity	**83,902**	65,878	53,941	35,448	26,261	22,639	16,878	3,979
Return on shareholders' equity	**33%**	16%	35%	26%	17%	24%	41%	43%
Common Share Data								
Common shares outstanding (#)								
At December 31	**18,446**	17,903	17,436	16,789	16,296	16,169	15,900	13,721
Weighted average	**18,175**	17,748	17,147	16,604	16,257	16,103	14,058	12,412
Share trading								
High ($)	**25.50**	13.35	10.34	9.75	6.90	8.50	6.50	2.40
Low ($)	**11.65**	8.65	6.00	5.50	2.25	2.50	6.30	0.70
Close ($)	**25.20**	11.95	9.10	6.95	6.25	2.90	6.50	2.15
Volume (#)	**4,635**	5,479	4,423	3,233	3,266	4,987	4,422	n/a

Corporate Information

DIRECTORS

Harold R. Allsopp, MBA, CA (1)(2)
PRESIDENT
Habede Holdings Ltd.
Calgary, Alberta

Murray L. Cobbe, Eng.Diploma (Petroleum) (1)(3)
PRESIDENT & CHIEF EXECUTIVE OFFICER
Trican Well Service Ltd.
Calgary, Alberta

James D. Hill, BSc, CA
PRESIDENT & CHIEF EXECUTIVE OFFICER
Pason Systems Inc.
Calgary, Alberta

James B. Howe, CA (1)(2)
PRESIDENT
Bragg Creek Financial Consultants Ltd.
Calgary, Alberta

Paul F. Little, MBA, CA (2)(3)
PRESIDENT
Westover Investments Inc.
King City, Ontario

Peter S. Mackechnie, CA (3)
ASSOCIATE DIRECTOR
Bear Stearns
Vail, Colorado

(1) Audit Committee Member
(2) Compensation Committee Member
(3) Corporate Governance Committee Member

OFFICERS AND KEY PERSONNEL

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Jim Hill
PRESIDENT & CHIEF EXECUTIVE OFFICER

Joanne Dickie
CHIEF FINANCIAL OFFICER

Lucy Tomie
CONTROLLER

Bob Rodda
CANADIAN BUSINESS UNIT MANAGER

David White
R&D MANAGER

James Parks
MANUFACTURING MANAGER

Pason Systems USA Corp.

Jim Hill
PRESIDENT

Ben Thomas
U.S. BUSINESS UNIT MANAGER

Jerry Aberle
CHIEF FINANCIAL OFFICER

Joe Watson
GEOLOGICAL SERVICES MANAGER

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REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: PSI

ANNUAL MEETING

The Annual Meeting of Shareholders of Pason Systems Inc. will be held on Monday, May 31, 2004 at 3:30 p.m. (Calgary time) in the offices of Pason Systems Inc., 6130 Third Street S.E., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Valiant Trust Company at their earliest convenience.

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pasonsystems inc.

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